

## **MINUTES**

### **MONTANA HOUSE OF REPRESENTATIVES 58th LEGISLATURE - REGULAR SESSION**

#### **JOINT APPROPRIATIONS SUBCOMMITTEE ON GENERAL GOVERNMENT AND TRANSPORTATION**

**Call to Order:** By **CHAIRMAN JOHN BRUEGGEMAN**, on February 7, 2003  
at 9:00 A.M., in Room 317-B Capitol.

#### **ROLL CALL**

**Members Present:**

Rep. John Brueggeman, Chairman (R)  
Sen. Rick Laible, Vice Chairman (R)  
Sen. Gregory D. Barkus (R)  
Sen. Mike Cooney (D)  
Rep. Monica Lindeen (D)  
Rep. John Sinrud (R)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Christi Moyer, OBPP  
Amy Sassano, OBPP  
Misty Shea, Committee Secretary  
Lynn Zanto, Legislative Branch

**Please Note.** These are summary minutes. Testimony and discussion are paraphrased and condensed. Tape stamps indicate information that is found below.

**Committee Business Summary:**

Hearing & Date Posted: State Auditors Office, 2/7/2003  
Executive Action: None

**{Tape: 1; Side: A; Approx. Time Counter: 0 - 12}**

**John Morrison, State Auditor**, appeared before the committee to provide an overview of the State Auditor's Office and explain their budget request. He stated that the office does not actually perform any auditing, but regulates the insurance and securities industries to protect Montana consumers and to maintain an even playing field with said industries. He explained that the securities division is smaller than the insurance division because there is a federal regulator responsible for securities while insurance is regulated by the state. The State Auditor's goal is an efficient financial service market where consumers and legitimate companies can function safely, fairly, and efficiently.

**Mr. Morrison** explained the State Auditor's administrative role in revenue collection, he referred to the FY03 number on the first page of the provided handout. He stated that \$50,000,000 collected is in insurance premium taxes, and \$7.5 million is in securities fees with all of the money going to the general fund. He said that a significant amount of all staff time spent is dedicated to collecting and properly accounting for that money. Page 5 of the handout (Exhibit 1) shows the relatively constant growth of premium taxes, which **Mr. Morrison** explained. He then skipped forward to the bottom table on Page 14 which shows securities revenue growth. He told of how the stock market impacts the securities and insurance revenues, and talked of recovering substantial amounts of money lost by consumers due to unlawful practices (reference Page 2 of Exhibit 1). He pointed out information on Page 1 of the handout, showing that Montanans pay more in insurance premiums than they do in state taxes. He talked about the large amount of people in the insurance business in Montana and their licensing (Refer to Pages 4-5 of Exhibit 1). He showed where our insurance budget is modest compared to other states (reference Page 2 of Exhibit 1), but with a higher workload.

Insurance Companies licensed to do business in Montana pay a flat fee that funds the State Auditor's insurance departments. **Mr. Morrison** stated that the companies they regulate largely support the insurance budget proposals of the State Auditor's Office, as adequate funding is essential. He gave an explanation of their requests for FTE (reference Pages A 86-87 of the Budget Analysis book).

**EXHIBIT (jgh27a01)**

***{Tape: 1; Side: A; Approx. Time Counter: 12 - 25}***

**Mr. Morrison** explained the insurance bureau's function and complexities. They are: examinations, investigations, policyholder services, rates and forms, licensing and continuing education (reference Pages 4-12 of Exhibit 1). **Mr. Morrison** said there are quite a few differences in the way states regulate insurance. The State Auditors Office is diligently trying to eliminate those inconsistencies in order to develop a smoother national regulatory environment in which companies can compete. He spoke to the value of accreditation to Montana's economy and domestic insurers, as it is cost effective. The agency of State Auditor is accredited by the National Association of Insurance Commissioners.

**Mr. Morrison** stated that nearly all the insurance policy forms issued in the state have to be approved by the rates and forms bureau for compliance of law. He said there are two actuaries in the bureau who review the premium rates and try to make sure they are fair. He talked about the 10% workload increase in the last four years and how the agency is handling it.

**Mr. Morrison** explained that the insurance investigations bureau investigates complaints that can't be resolved by policyholder services to a number of about 150 per year. This amounts to an estimate of \$50,000 annually, plus varying thousands of dollars worth of recoveries. He asked the committee to note the growth of the insurance licensing industry (Page 10 of Exhibit 1), and he discussed it. He spoke in regard to the tasks of policyholder services who interface with consumers everyday. They take 100 phone calls daily and receive 3,000 written insurance complaints a year with the numbers increasing (reference Page 11 of Exhibit 1).

***{Tape: 1; Side: A; Approx. Time Counter: 25 - 30}***

**Mr. Morrison** discussed the new activity of captive insurance in Montana which is basically self-insuring (refer to Page 8 of Exhibit 1).

**SEN. LAIBLE** being familiar with the concept, also explained the function to committee members.

***{Tape: 1; Side: B; Approx. Time Counter: 0 - 13}***

**Mr. Morrison** continued explaining captive insurance; how its existence is an opportunity to recruit more businesses to locate in Montana. He discussed the securities department; what they are

responsible for as a criminal justice agency, and the future forecast (reference Pages 13-15 of Exhibit 1). He said the State Auditor's Office has some of the largest securities cases in the history of the state pending in their department right now. He went over the securities registration, revenue, and enforcement tables found on the handout. He explained the request to restore the securities budget to over \$115,000 as the State Auditor's Office is changing the way mutual funds are filed to increase the amount of revenue generated by them and to be consistent with other states.

**Mr. Morrison** discussed the central management bureau, which includes his position, computer staff, the receptionist, and executive assistant (reference Pages A 81-84 of the Budget Analysis book). He introduced John Huth, Centralized Services Division Administrator, Jill Gerdrum, Deputy State Auditor, Angela Huschka, Deputy Insurance Commissioner, and Brenda Thompson, Deputy Securities Commissioner.

**SEN. LAIBLE** asked how much the captive insurers pay in fees, which is a minimum of \$5,000 per year. **John Huth** discussed captives further, and he explained Public Employees Retirement Division (PERD) Payments on Page 5 of Exhibit 1 for SEN. LAIBLE.

*{Tape: 1; Side: B; Approx. Time Counter: 13 - 30}*

**SEN. BARKUS** and **Mr. Huth** discussed the estimation of fines and recoveries, as the Senator had questions pertaining to Page 8 of Exhibit 1. **Angela Huschka** and **SEN. BARKUS** went over the continuing education fees on Page 10 as they have been restructured, and Ms. Huschka commented on the intent of pursuing insurance code violators. **SEN. BARKUS** and **Mr. Morrison** discussed market conduct examinations and the need for the resources to handle them (reference Page A-86 of the Budget Analysis book).

**SEN. LAIBLE** asked about the stamping fee found on the State Auditor's audit report. **Jill Gerdrum** explained that it is a statutory authority to essentially collect a tax on surplus lines premiums. **John Huth** commented that they have to report the revenues and expenses of the fee on the State Auditor's books, though they are something not seen in their office, as they only have oversight. **SEN. LAIBLE** asked if the fees collected are then a pass-through expense. **Ms. Gerdrum** agreed that they are, and said that the money goes directly to the Surplus Lines Association to pay for the contracted service they use. **John Huth** provided a final handout and made comments on the State Auditor's budget request. He explained the impact of the reductions instigated by the Governor's office and OBPP, and of

the motion to go back to the FY00 base. He talked about going to State Budget Director Swysgood and REP. DAVE LEWIS concerning the State Auditor's proposal (reference Exhibit 2), which was found to be agreeable by both parties.

**EXHIBIT (jgh27a02)**

**Mr. Huth** made a request of the committee for a 2% rent increase as the State Auditor's Office had to move. He explained, and did not have a dollar amount for them at this time. He stated that the State Auditor is willing to withdraw the request for two FTE (See Page A-86 of the Budget Analysis book) in exchange for the appropriation to withdraw two FTE for market conduct exams in exchange for the rent increase.

*{Tape: 2; Side: A; Approx. Time Counter: 0 - 12}*

**Ms. Gerdrum** clarified how market conduct research is done at present. She said it would be beneficial to have the ability to contract for this service.

**Proponents' Testimony:**

**Tonya Aske**, representing **Blue Cross and Blue Shield of Montana**, spoke in regard to what they do, and stated that having a viable insurance market and financial oversight is very important to their business. As a domestic insurer, she explained how the timely reviews by the State Auditor's Office help them.

**Frank Cote**, (former Deputy Insurance Commissioner) representing the **Health Insurance Association of America** and the **Attorneys Liability Protection Society**, testified to the critical nature of properly funding the State Auditor's Office.

**Aidan Myhre**, **Montana Comprehensive Healthcare Association**, gave a background on MCHA and attested to how the State Auditor's Office helps with their programs.

**Joe Mazurek**, representing **DA Davidson and Companies**, testified to the importance of having effective regulations for accountability and ensuring public confidence in the markets.

**Kelly Koontz**, **Financial Consultant with DA Davidson Co.**, spoke in favor of the State Auditor's budget.

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**ADJOURNMENT**

Adjournment: 10:15 A.M.

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REP. JOHN BRUEGGEMAN, Chairman

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MISTY SHEA, Secretary

JB/MS

**EXHIBIT** (jgh27aad)